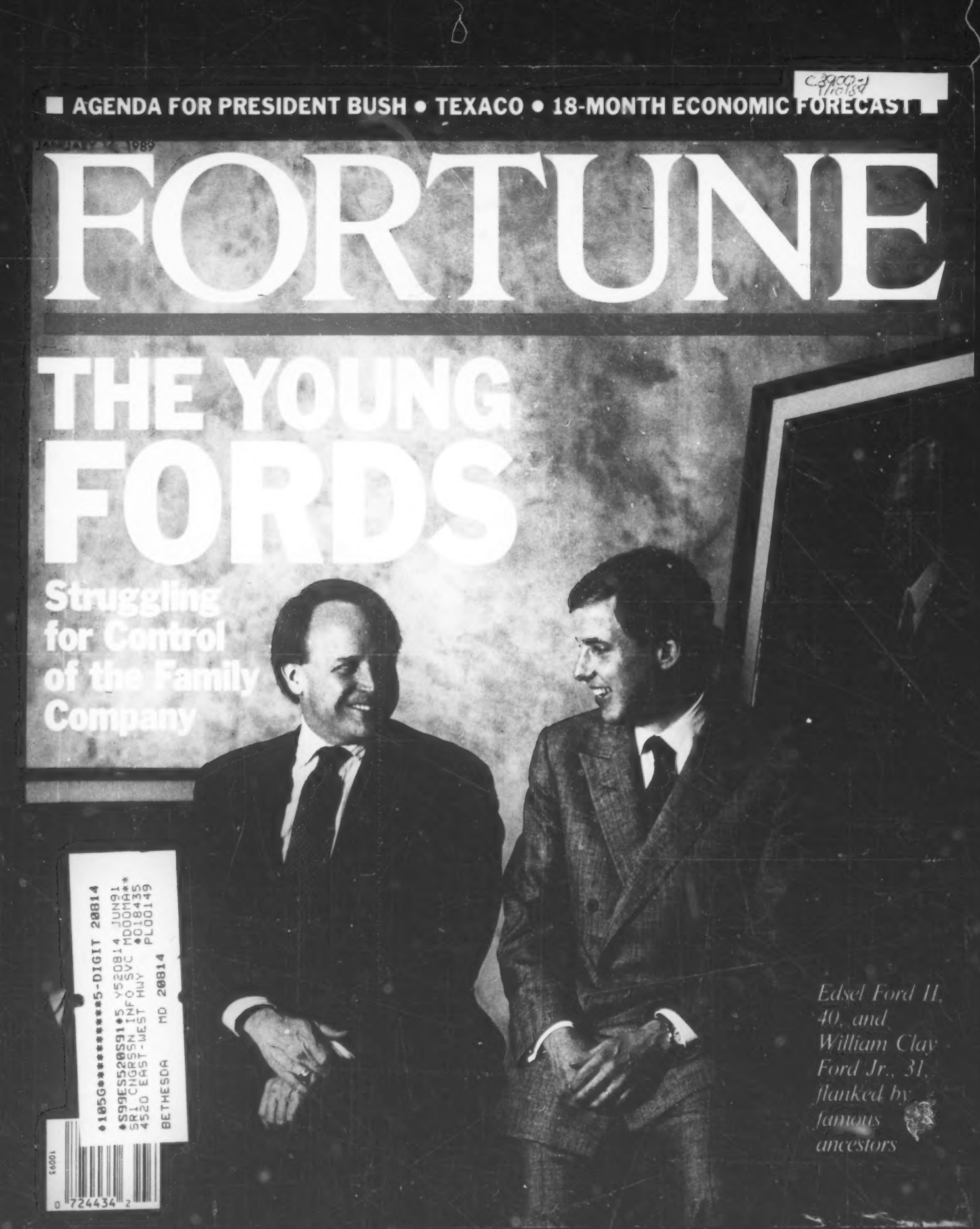
■ AGENDA FOR PRESIDENT BUSH • TEXACO • 18-MONTH ECONOMIC FORECAST

JANUARY 2, 1989

FORTUNE

THE YOUNG FORDS

Struggling for Control of the Family Company



Edsel Ford II, 40, and William Clay Ford Jr., 31, flanked by famous ancestors

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FORTUNE

Edsel: "It seems odd that there are three classes of directors: inside, outside, and Billy and me."
COVER STORY/PAGE 36

COVER AND ABOVE: George Lange photographed Edsel B. Ford II (left) and William Clay Ford Jr. at Ford's headquarters.

DYNASTIES/Cover Story

FORDS FOR THE FUTURE 36
The family, with 40% of the shareholder votes, has effective control of the third-largest U.S. industrial corporation. The great-grandsons of Henry Ford—Edsel II and William Clay Jr.—want to run the company. But CEO Donald Petersen has real doubts. *by Alex Taylor III*

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FORTUNE's economists see a year and a half of slow expansion ahead, but if you think that means a dull time, think again. Leisurely progress on the trade deficit will jangle nerves in the financial markets. Business will wrestle with workers over pay increases. And inflation will provide white-knuckle thrills as it climbs toward levels not seen in years. *by Todd May Jr.*

WINNERS FOR SLOW TIMES 60
A look at 15 industries: This year won't be as good as last for most, but profits will keep rolling in for many—especially exporters.

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A sturdy Annapolis graduate and a canny corporate politician, Chief Executive James Kinnear would like to be the boss. So would brusque, impatient raider Carl Icahn of TWA, who is accumulating Texaco shares again and threatening to mount a new attack. The unending struggle between managers and shareholders is forcing strategic compromises and setting the big oil company adrift. *by Stratford P. Sherman*

NESTLÉ SHOWS HOW TO GOBBLE MARKETS 74
Under Chief Executive Helmut Maucher, an extroverted German who wears saddle shoes and a tie emblazoned with the company insignia, the world's No. 1 food company wrote the book on global expansion. Key lessons: Always think long term, adapt products to countries and cultures, and expect to lose plenty of money while building market share. *by Shawn Tully*

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MONIQUE JACOT

"The market is distinctly overvalued and stocks should underperform bonds over the next five years."

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"Daddy never liked to talk about business at home. If we asked a question, we got a two-second answer."

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Kinnear is presiding over a near revolution at logy old Texaco—not always willingly.

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"We need the single-mindedness of people who think about chocolate 24 hours a day."

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"Americans are ready to do what has to be done; all they want is leadership."

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"People are still driving an awful lot in Europe and Japan despite high gas taxes."

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The first priority is to *gradually* bring the budget into balance. That can be done with a combination of spending cuts and, sorry to say, tax increases totaling $100 billion by 1994. The new President should also rethink policies important to business, including education, the environment, housing, the financial markets, and trade.

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EDITOR'S DESK

LISA BOGDAN

Fraker (left), Taylor (top), and Morrow

IS THERE a Ford in Ford's future? Most stories about America's third-biggest industrial company have focused on Ford Motor's classic comeback from its slump of the early 1980s. But none have plunged into the growing activism of the Ford family, who own 40% of the voting stock, and the tension that has developed with the company's professional managers—the ones whose names are *not* on the door. On page 36, writer Alex Taylor III takes an exclusive look at what he calls "a struggle of historic proportions" over who will run Ford in the future: hired hands or one of the two great-grandsons of Henry Ford on our cover.

"The story of the young Fords is remarkable and has not been reported anywhere else," says Taylor. "It's a great human drama." Adds story editor Susan Fraker: "All CEOs have to worry about keeping their shareholders happy, but few have to deal with a family that owns 40% of the voting stock."

Taylor has been watching the Fords go by since he was a business writer for the Detroit *Free Press* ten years ago. He recalls seeing longtime chairman Henry II riding his bicycle around Grosse Pointe Farms after work. For this story he spoke for many hours with a dozen family members and in-laws, notably Edsel Ford II, 40, the heir presumptive, and his cousin, William Clay Ford Jr., 31. He also interviewed Fords who usually do not see the press, including Josephine, 65, an art collector nicknamed Dodie, and Frederic Bourke, 42, the most influential of the Ford in-laws.

Unexpected help came from John Sculley, Apple Computer's chairman, who encouraged a reluctant Kathleen DuRoss Ford, Henry II's widow, to speak to Taylor. Sculley persuaded her to talk by telling her, "FORTUNE is a highly ethical publication."

Reporter David Morrow interviewed the most unorthodox family member, Alfred Brush Ford, 38, who joined the Hare Krishna movement in 1974 and changed his name to Ambarish Das. Morrow spent days tracking him down. "It was hard finding a particular Hare Krishna in South Florida," says Morrow. "There are a lot of them." He also prepared a detailed chart of family stock holdings, maneuvering through a maze of prospectuses, proxy statements, and, of course, the Social Register. He accounted for 98% of the holdings and was relieved to discover that the remaining 2% was in family trusts.

■

On page 82, FORTUNE presents the incoming Bush Administration with an agenda for the nation. A team of 11 writers and reporters, in consultation with chief economist Todd May and his Fortune Forecast crew, tackled a range of issues, from deflating the deficit to smartening up the educational system. Says assistant managing editor Ann Morrison, who supervised the project: "We spent weeks researching alternatives and hours discussing points that we eventually boiled down to a paragraph. Our proposals will make challenging New Year's resolutions for the President-elect."

Marshall Loeb

MANAGING EDITOR

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CEOs TO BUSH: RAISE TAXES NOW

And reduce spending too, say the heads of America's largest corporations. They want the deficit cut, and they think smokers, drinkers, and drivers should help pay. ■ *by David Kirkpatrick*

THEY SUPPORTED BUSH overwhelmingly in the election, but now that he's about to become their President, America's CEOs have stern talk for him about the deficit. *Cut it*, they say. Cut spending in all sorts of places. And forget that foolish pledge about no new taxes.

The latest FORTUNE 500/CNN Moneyline CEO poll finds that a majority of corporate chiefs think taxes should be raised—and will be. They don't want to increase taxes on income or capital gains, but neither are they just trying to gore somebody else's ox. When a defense contractor wants to cut defense spending and a maker of auto products advocates a higher gas tax—and they do—that's no-fooling determination to bring the deficit down.

The CEOs' preferred tax increases would hit smokers, drinkers, drivers, and well-off Social Security recipients. Defense spending and farm subsidies are what the chiefs would most like to cut. They state their views bluntly, sometimes passionately. Says Harry W. Todd of aerospace company Rohr Industries: "It is simply ridiculous. Instead of building our economic strength, we are raping it." Hays T. Watkins of CSX adds: "Our national economy cannot continue to withstand massive deficits. If Congress cannot or will not control expenses, the only answer is more taxes."

An independent opinion research firm, Clark Martire & Bartolomeo, conducted the survey from December 5 to 15. The respondents were 225 CEOs of FORTUNE 500 and Service 500 companies.

Q **Do you think taxes or user fees should be increased to reduce the budget deficit?**

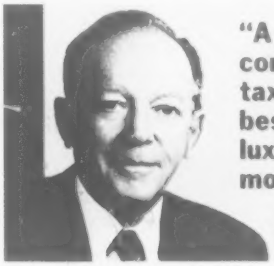
A

Yes	68%
No	31%
Not sure	1%

Q **Which of these changes would you favor?**

A

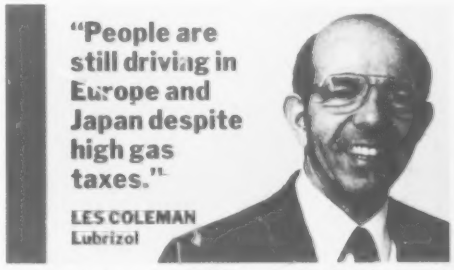
Raising alcohol taxes	88%
Raising tobacco taxes	88%
Raising gasoline taxes	79%
Taxing Social Security payments	67%
Ending the deductibility of interest on loans for LBOs and takeovers	46%
Introducing a national sales tax	40%
Raising personal income taxes	16%
Raising corporate income taxes	8%
Raising capital gains taxes	3%



"A graduated consumption tax would be best . . . I'd tax luxury items more heavily."

VINCENT SARNI
PPG Industries

The survey found that 68% of the CEOs think tax or user fees should be raised to reduce the deficit. But several emphasize that raising revenues alone won't reduce the deficit, since they believe Congress can't be trusted with the money. Most would concur with Les Coleman of Lubrizol, a manufacturer of industrial and automotive lubricants and fuels: "I like the suggestion of taxing alcohol, tobacco, and gas, with the provision that the funds be used *only* for the deficit. Anything that goes into the general fund gets used to increase spending."



"People are still driving in Europe and Japan despite high gas taxes."

LES COLEMAN
Lubrizol

That same distrust is behind the thinking of many in the minority of CEOs who oppose any tax raise. "The irresponsible Congress will just keep spending money," argues Richard P. Wollenberg of Longview Fibre, a $650-million-a-year paper and forest products company. "They've proved that time and again."

Other opponents of tax increases cite different reasons. "American business will be more productive, make more money, and pay more taxes without a tax increase," says Robert B. O'Brien Jr. of New Jersey–based Carteret Savings Bank, stating the supply-sider's creed. William Coors of Adolph Coors thinks spending cuts alone can do the job. In particular, he says, "the budget can be balanced by making our global trading partners pay their fair share of the cost of the free world's defense."

The pro-tax crowd counters that the right taxes could do more than just help balance the budget. Jack MacAllister of U.S. West, the big regional phone company, says, "Tobacco and alcohol have added to the health care costs of our nation. It seems appropriate to tax these for needed revenue." An overwhelming 88% advocate such taxes. On the other hand, Harry G. Bubb of Pacific Mutual Life Insurance believes, "We're not going to get there by increasing

"In principle it would be great to tax these LBOs."

PETER SCOTT
Emhart

sin taxes." He proposes a 50-cents-a-gallon tax on gasoline, not only to raise revenue but also to encourage conservation.

A gas tax wins the support of 79% of the CEOs. Many like such a tax's enormous power to generate revenue—roughly $1 billion for each penny added per gallon, at least for the first few cents of extra tax. In addition, says Amos McMullian of Flowers Industries, a Georgia-based food company, "there's already machinery set up to collect taxes on gasoline. It's just a matter of increasing them, whereas with a new sales tax there would be a whole new set of forms and bureaucracy." Lubrizol Chairman Coleman notes the oddity of his supporting a gas tax, since his company makes automotive oils and fuels. "I should probably be against it," he says, "but the U.S. is the world's low-cost gasoline user. People are still driving an awful lot in Europe and Japan despite high gas taxes."

C.J. "Pete" Silas of Phillips Petroleum begs to disagree. "I'm opposed to putting the burden of balancing the budget on the petroleum companies," he says. "Our industry is already the most highly taxed in the country. People assume we'll pass this tax on to the consumer, but that doesn't always happen." Nonetheless, even Silas says he might accept an increased gas tax as part of a broader package of spending cuts and other revenue raisers.

Taxes on Social Security payments ought to be increased for some recipients, say 67% of the corpor[illegible]osses. The payments are now tax-free for individuals with adjusted gross incomes below $25,000 ($32,000 for couples). Above those levels, no more than 50% of benefits get taxed. Josh Weston of Automatic Data Processing advocates full taxation for recipients earning over $25,000 per year. John Dickson of Roundy's, a Wisconsin-based food distributor, goes further. He says, "Taxes should be levied on Social Security as on any other income."

About half the CEOs favor a revenue raiser that would also help protect them from raiders: ending the deductibility of interest on loans for takeovers and leveraged buyouts. "I've been advocating that for ten years," says Longview Fibre's Wollenberg. "We'd have a stronger business establishment if there were more reliance on equity and less on debt." Peter L. Scott of Emhart, an old-style conglomerate, shares Wollenberg's distaste for highly leveraged takeovers. "In principle it would be great to tax these LBOs, which don't add a thing to the gross national product," he says. "But I don't think such a tax would be workable."

Some CEOs favor a national consumption tax or a value-added tax of the type common in Europe, either of which would probably help boost America's anemic savings rate. Says Vincent A. Sarni of PPG Industries: "A graduated consumption tax would be best, exempting people below certain income levels. I'd tax luxury items more heavily."

When it comes to spending, these CEOs are a miserly bunch. "I don't think this is the time for increased federal spending in any area," says McMullian of Flowers Industries. His peers largely agree, although a substantial minority favor a fattened education budget. Sarni of PPG is among them: "We should increase spending for education. The future of our country is at stake. It's a crisis area, and we need to catch up."

Perhaps more surprising is that 62% of the CEOs, a heavily Republican group according to past polls, think the U.S. ought to cut defense spending. Says Carteret's O'Brien: "Gorby has given us a fabulous opportunity here, and we should seize the initiative. There's no question defense spending should be cut—but I'm worried that Senator Tower [Bush's selection for Defense Secretary] isn't the man to do it." Wollenberg of Longview Fibre suggests reducing the size of the Navy and stretching out procurement of new weapons systems. Even Lawrence O. Kitchen of Lockheed concedes, "We need a combination of reduced defense expenditures, reduced or streamlined entitlements, and increased taxes."

"American business will be more productive . . . without a tax increase."

ROBERT O'BRIE
Carteret Saving

Among the five major spending programs we asked the CEOs about, agricultural subsidies, which mushroomed under Reagan, were their least favorite by a mile. An overwhelming majority wants to cut them. Russell L. Hanlin of Sunkist Growers, a cooperative of citrus farmers who don't get subsidies, sounds a rare note of support: "As long as they exist in the rest of the world, I think our farmers need an equal level of protection."

Despite their profound worry about the budget deficit, the bosses expect a good 1989, with only 16% foreseeing recession during the year. That is a perfectly consistent outlook. As McMullian ruefully observes: "The deficit is a heck of a problem, but it's certainly giving demand a stimulus." F

Q A **Do you think a tax increase will be passed during 1989?**

Yes	61%
No	37%
Not sure	2%

Q A **Do you expect a recession to begin in 1989?**

Yes	16%
No	82%
Not sure	2%

Q A **Should federal spending be increased, decreased, or left about the same?***

	Increased	Decreased	The same
Education	37%	7%	52%
Medicare	11%	33%	49%
Defense	2%	62%	34%
Social Security	2%	23%	68%
Agricultural subsidies	**	87%	10%

*Answers do not total 100% because some respondents had no opinion. **Less than 1%